NATIXIS INVESTMENT MANAGERS

2024 NATIXIS GLOBAL SURVEY OF FINANCIAL ADVISORS

Future Shock

Financial advisors navigate short-term risk to ensure long-term success

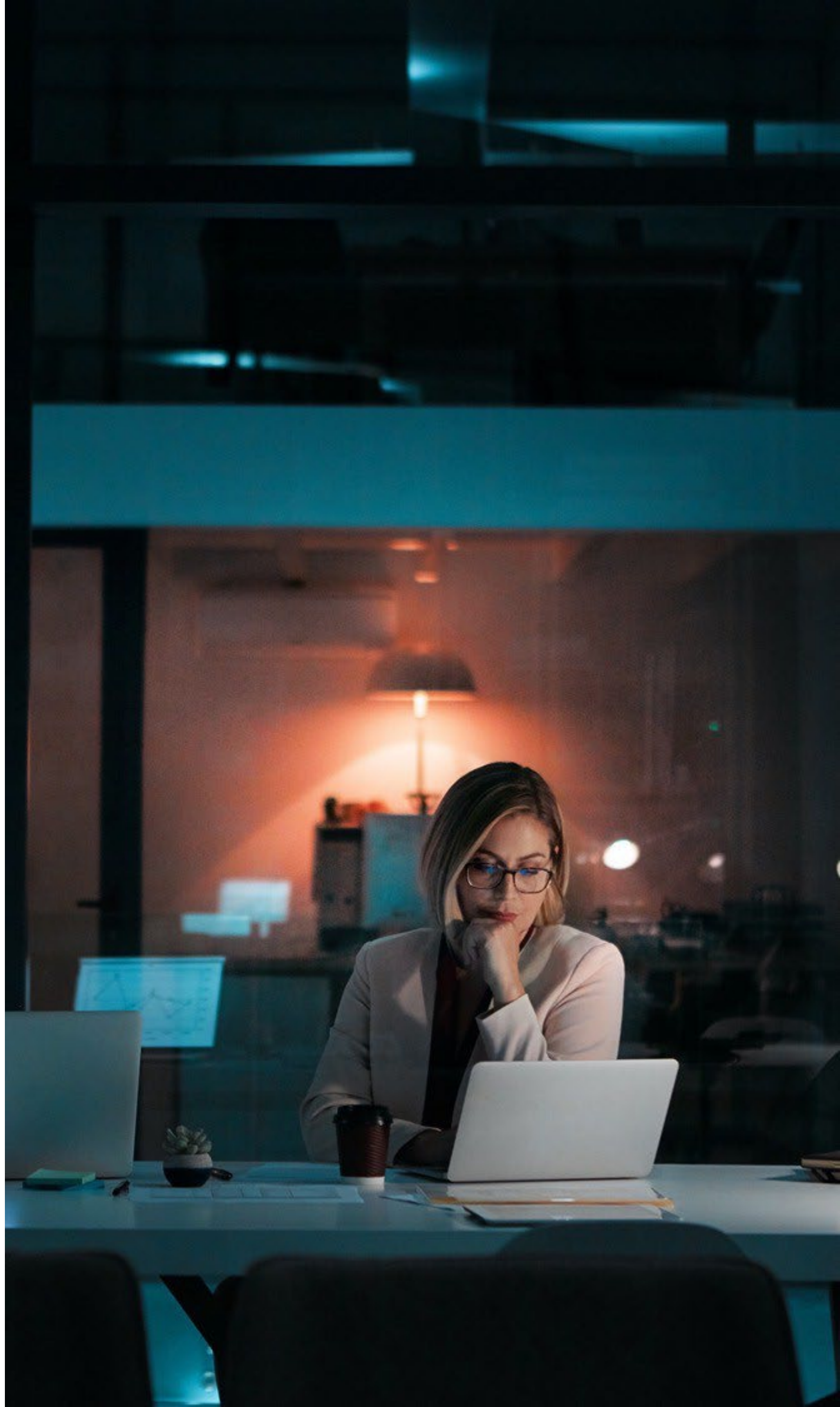
Executive Summary of Latin American Findings

Trapped between long-term demographic threats and short-term economic risks

Financial advisors are feeling pressure from all sides as they look to ensure the future of their businesses. Investment assumptions are being tested by lower inflation, lower rates, and slowing growth. Clients are demanding more specialized services while holding high expectations for investment performance. And portfolio construction is becoming more complex as advisors adopt a wide range of new products and look to incorporate private investments in their strategies.

To futureproof their practices, advisors will need to address the short-term challenges and long-term pressures shaping four critical areas of the business:

CLIENT ACQUISITION	INVESTMENT MANAGEMENT	CLIENT MANAGEMENT	PRODUCT SELECTION

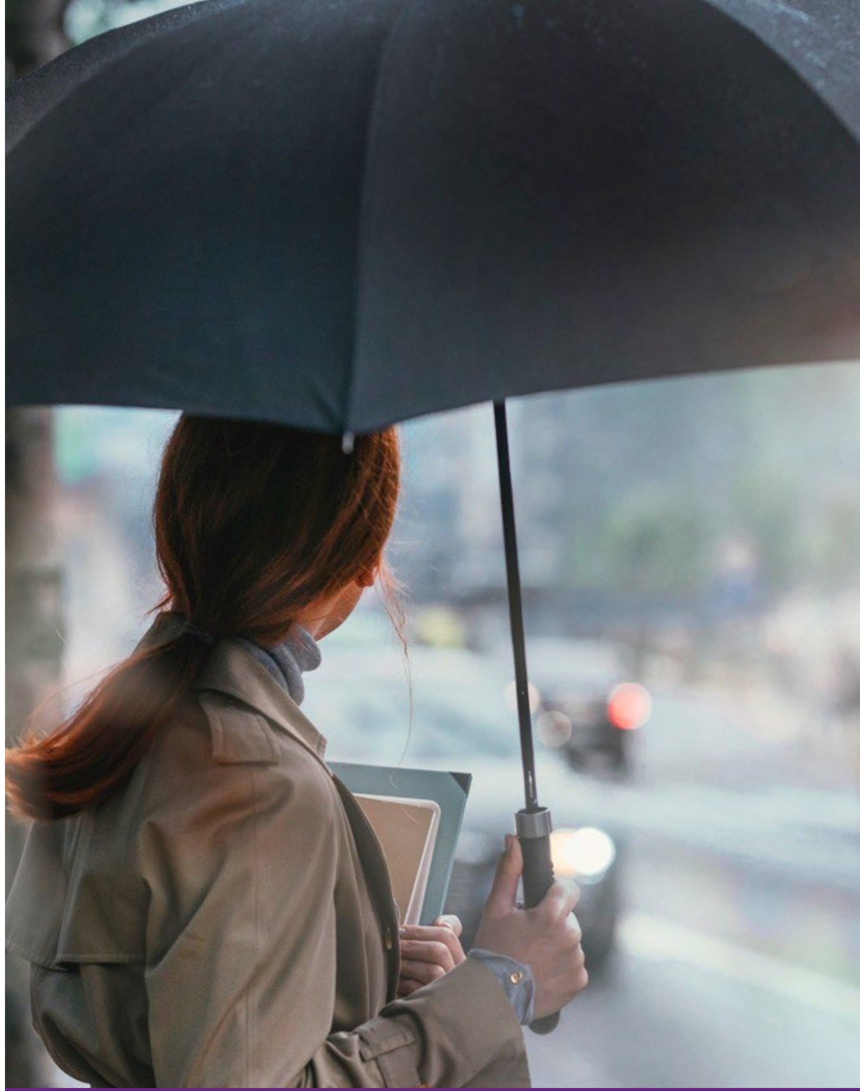


What it takes to grow

Despite the pressure, advisors are optimistic. They anticipate an average of 11.1% growth on a one-year basis and expect annualized growth of 14.2% over the next three years. How will they get there?

Key growth factors

54%	Demonstrate value beyond asset allocation
49%	Help clients better assess their risk profile
48%	Establish relationship with client heirs
42%	Getting clients to invest beyond cash
42%	Merger/Acquisition
33%	Meet demand for private assets
30%	Transitioning more of my clients to model portfolios



Advisors say they'll need to add an average of 34 new clients each year for the next three years to meet their growth goals.

Wealth transfer: Existential threat or growth opportunity?

How often advisors retain assets

72% SPOUSE

43% CHILDREN

With $84 trillion passing from one generation to the next over the next 20 years,[1] 53% of financial advisors globally say generational wealth transfer presents an existential threat to their business. The future looks challenging, and 46% are increasingly worried they will not retain assets from clients' spouses or next-generation heirs.

Despite this, advisors have had some success in retaining assets. Overall, they report holding on to client relationships 72% of the time when the spouse inherits. But when a client's children inherit, asset retention is a 50/50 proposition. And nothing is guaranteed: 43% say they've lost significant assets through generational attrition.

What helps retain assets?

63%	Long-term relationship building
58%	Offering ancillary services, such as trust
56%	Personalized services, such as networking
37%	Offering a financial boot camp for next-generation heirs
36%	Implementing unified managed accounts (UMAs) for clients

CLIENT ACQUISITION

Clients come first in growth plans

While keeping clients on the books is essential to growing a business, adding new clients is just as important. But time-strapped advisors currently dedicate less than 10% of their time on this critical growth activity.

Many advisors are focused on finding efficiencies that can help them get better at prospecting. Most put client segmentation (57%) at the top of the list, but many are chasing the same clients. Globally, advisors say younger individuals either entering or in the midst of their prime earning years represent the sweet spot for prospecting. In LATAM: 88% focused on those between the ages of 35 and under 50, while 70% focused on those between age 50 and 60.

Segment priorities for client acquisition in next 12 months

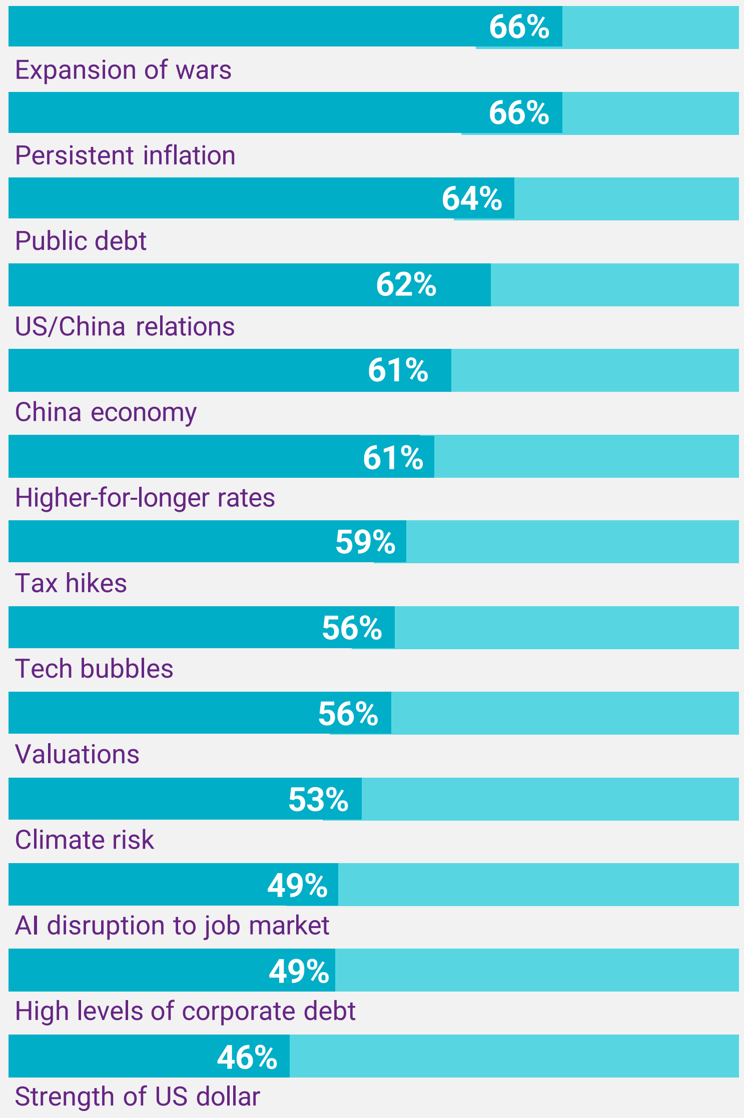
	Global	LatAm	Euro	Asia	US
18–34	46%	67%	47%	54%	14%
35–49	72%	88%	82%	70%	46%
50–59	85%	70%	86%	82%	96%
60–64	61%	49%	56%	54%	88%
65+	37%	26%	30%	40%	56%
No demo targets	27%	25%	35%	12%	26%

INVESTMENT MANAGEMENT

Policy presents greater long-term considerations

In an environment marked by the first rate cuts in four years, market highs, and slowing growth, financial advisors have the added challenge of navigating a year of contentious elections globally. In the short-term, 68% say the fundamentals are more important than elections. In the long term, policy will ultimately matter, as 64% rank public debt as a top economic risk.

Where advisors see high risk ahead



CLIENT MANAGEMENT

A matter of time

Advisors spend 42% of their time meeting with or managing clients, but there's still more work to be done. In the long term, advisors need to address growing client demand for financial planning services, which 64% believe differentiates their practice. In the short term, advisors have to keep client invested and help them avoid their number-one investor mistake: timing the market.

Advisors also caution that after an extended run-up in equities, investors should be aware of unrealistic expectations (29%). When asked in 2023, investors said they expect their investments to earn 14.8% above inflation over the long-term.[2] In 2024, advisors said 10% above inflation is more realistic, leaving a 47% expectations gap between the two.

Top risks clients need to pay attention to right now

40%	Timing the market/chasing returns
30%	Too much cash on the sidelines
29%	Unrealistic return expectations
27%	Relying too much on home value as an asset
26%	Forgetting about tax implications
25%	Having the wrong risk profile for their age
25%	Over-spending

Top client questions:

64% What do I need to do to outpace inflation?

64% Am I protected from a market downturn?

63% How do I preserve and pass on what I built?

63% Should I be worried about my investment because of the election?

62% Am I going to meet my goals?

55% Why should I get back in the market when cash looks so good?

Getting cash off the sidelines

Asked to define risk in our 2023 investor survey, individuals cited exposure to volatility (30%) or loss of capital (17%). Few thought of risk in terms of failing to meet their goals (11%) or having too much allocated to cash (4%).[2]

Today, nearly one-third of advisors globally (32%) and as many as 62% in Singapore, 41% in the UK, and 30% in LATAM think having too much cash on the sidelines is something clients need to be aware of.

With rates reaching 15-year highs since 2023, investors have been flooding into cash instruments to chase risk-free returns. The problem is that even at 5%, cash alone cannot generate the returns most investors need to meet long-term funding goals. Advisors have much to discuss with clients in order to get them reinvested, but they say most effective is educating them on the risk of missing out (52%) on market performance.

To help clients become comfortable with investing again, advisors say it's important to help them understand their risk capacity (52%) and remind them that they need growth so they don't outlive their assets (44%).

41% of advisors say it's important to remind clients that cash is not risk-free

Discussing key points about cash will be critical:

- Inflation will cut into their earnings over time.
- Interest rates could be significantly lower when they have to reinvest.
- If their investments don't earn enough, they could outlive their assets.

PRODUCT SELECTION

Access, liquidity essential to private asset adoption

Although there's demand for private assets, the biggest challenge is that it's difficult to build a portfolio of private assets at scale, according to 59% of financial advisors in Latin America. Given increased investor demand, 58% also plan to augment the use of private assets in the next five years. But 75% say the availability of more liquid products will lead them to recommend private assets to clients more often.

36% say private assets are more attractive given high correlations in public markets.

42% say private assets have improved outcomes for clients.

67% say clients don't understand the holding period that comes with private investment, so more investor education is needed.

Active ETFs: Pinpointing opportunity, managing risk

Active exchange-traded funds (ETFs) are the best of both worlds: Clients get access to investments that focus on beating the benchmark, but that still provide the tax benefits, intra-day liquidity and fee structure of an ETF.

54% of financial advisors say they plan to increase their use of active ETFs.

57% of financial advisors see potential beyond outperformance and are looking to active ETFs to manage client risk exposure

41% say they increase their use of active ETFs when volatility increases.

Summary

Futureproofing the business

Financial advisors have set big goals for growth over the next three years. They're under pressure from all sides as they look to add assets and clients. But even as they recognize the challenge, they're responding with smart solutions.

- The generational wealth transfer puts assets at risk, but they know they'll need to focus their efforts on keeping client heirs on the books.
- They also know that bringing in new clients is fundamental, and they're streamlining operations and their investment process to increase their opportunity set.
- They'll need to manage investments through a changing macro and market environment, but the bigger challenge will be managing clients though the change. To be successful, they'll need to reeducate clients on key investment concepts, get them acclimatized to new risks, and help them manage their expectations.

When it comes down to it all, advisors genuinely have all they need to futureproof their business. To succeed they will need to continually adapt – something they've become accustomed to over the past two decades.

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